

Department of Energy

Office of the Chief Financial Officer



OMB A-123

Overview Guide

Version 3.1

May 2006



Quick Start Guide – A-123 Overview

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Background

Office of Management and Budget (OMB) Circular A-123 is not new, nor is the Federal requirement for management to maintain internal controls (previously called management controls) over financial reporting. In the past, the Department of Energy (Department or DOE) met its OMB A-123 obligations via the Secretary of Energy's attestation, made as part of its Federal Managers' Financial Integrity Act assurances. The Secretary's attestation was made based on assurance statements provided to him/her by Departmental Component Managers (Heads of Programs and Heads of Field Elements, plus Integrated Contractors).

In December 2004, OMB released a revised Circular A-123. While changes were made throughout the document, the most critical changes were concentrated in the newly added Appendix A, Internal Control over Financial Reporting. To meet these new requirements, the Department can continue to utilize the same basic attestation process that it previously used to meet its A-123 requirements, but it must change the way it prepares for attestation and manages the entire process.

The primary reasons for these changes are the strengthened requirements in Appendix A. The revisions to A-123 did not change the scope of the Circular or the scope of the required attestation. Instead, it strengthened the documentation, monitoring, and testing requirements. The documentation requirements not only became more detailed, but were also expanded to include both documentation of internal controls and documentation of the methodology and process used to make the attestations. The ultimate intent of the revised Circular was to "strengthen the process management uses to assess internal control over financial reporting."



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Internal Controls

A-123, Appendix A (hereafter referred to as A-123) activities provide the basis for the assurance on internal controls over financial reporting. Internal control consists of five interrelated components¹. These are derived from the way management runs a business, and are integrated with the management process. These components, which are generally referred to as Entity Controls, are:

- ❖ **Control Environment** – the environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management. A positive control environment is the foundation for all other internal control components. Things that impact the Control Environment include integrity and ethical values, management's commitment to competence, management's philosophy and operating style, human capital policies and practices, and an agency's relationship with the Congress and central oversight agencies such as OMB.
- ❖ **Risk Assessment** – provides for an assessment of the risks an agency faces from both external and internal sources. Things that impact the Risk Assessment include the establishment and clarity of agency objectives, significant interactions between an agency and other parties (as well as internal factors at both the entity-wide and activity levels), and the significance and likelihood of an event occurring.
- ❖ **Control Activities** – helps ensure that management's directives are carried out. Control activities should be effective and efficient in accomplishing an agency's control objectives. Things that impact Control Activities include policies, procedures, and mechanisms that enforce management's directives; approvals, authorizations, verifications, reconciliations; segregation of duties; and controls over information processing (general and application controls).
- ❖ **Information and Communication** – information is recorded and communicated to management and others within the agency who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities. Things that impact Information and Communication include the availability of relevant, reliable, and timely communications relating to internal and external events, including operational and financial data. This communication should occur in a broad sense, with information flowing down, across, and up the organization.
- ❖ **Monitoring** – assesses the quality of performance over time and ensures that the findings of audits and other reviews are promptly resolved. Things that impact Monitoring include the regularity of management and supervisory activities, comparisons, reconciliations, and other actions that people take in performing their duties. These activities should occur in the normal course of operations; separate evaluations can also be used.

¹ Information derived from *Internal Control – Integrated Framework* of the Committee of Sponsoring Organizations (COSO) of the Treadway Commission, and GAO's *Standards for Internal Control in the Federal Government*.



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Additional information on Entity Controls can be found in GAO's *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999), which is accessible from the CFO A-123 website: www.cfo.doe.gov/progliaison/doeA123/index.htm. The document *Internal Control – Integrated Framework* also contains information on Entity Controls. This document can be accessed at: www.coso.org.

In addition to Entity Controls, there are also internal controls related to the specific processes that impact financial reporting. To support the assessment of controls, the Department established five standard process cycles and 19 standard key processes around which A-123 assessments are performed. The process cycles are based on ORACLE best practices, while the related key processes—which have been tailored to Departmental operations—are based on Joint Financial Management Improvement Program manuals and the Committee of Sponsoring Organizations *Internal Control – Integrated Framework*. These standard process cycles and processes ensure consistent evaluation and reporting across the Department. Sites identify sub-processes, risks, and controls to support each process, as applicable. The process cycles and related key processes are as follows:

- **Procure to Pay (P2P)** – Acquisition; Inventory Management; Payable Management; and Travel.
- **Budget to Close (B2C)** – General Ledger Management; Funds Management; Funds Balance with Treasury; Cost Management; Insurance; Grants; and Loans.
- **Projects to Assets (P2A)** – Project Cost Management; Property Management; and Seized Property Management.
- **Quote to Cash (Q2C)** – Revenue Management; Receivable Management.
- **Enterprise Resource Management (ERM)** – Human Resources; Payroll; and Benefits

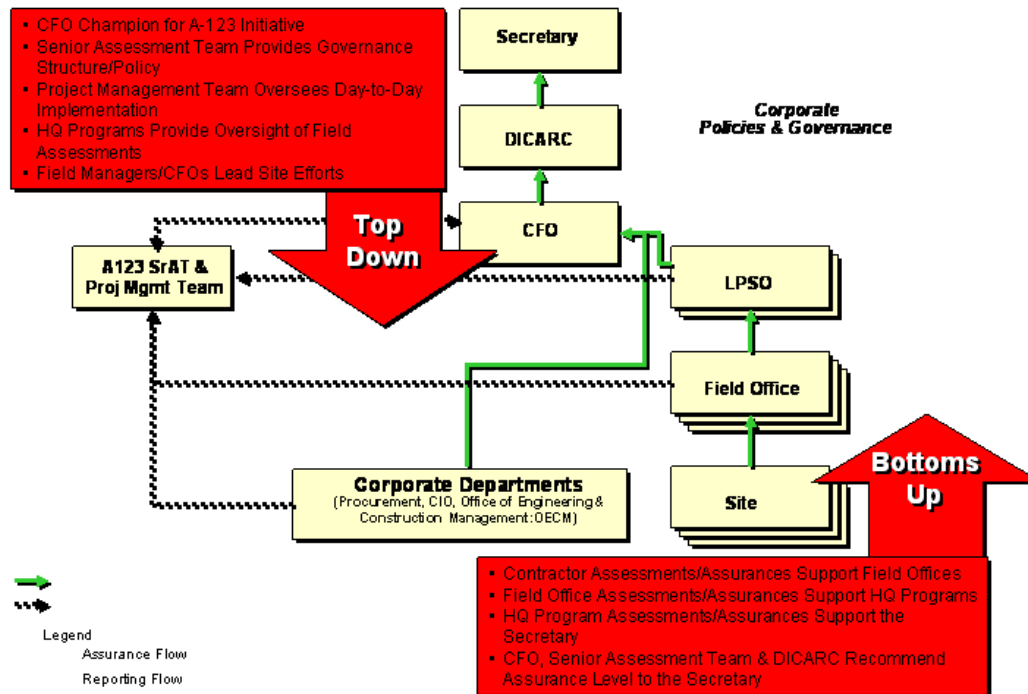


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DOE Approach

Reporting and Assurance Flow



The Department has a Top-Down/Bottoms-Up approach to implementing A-123.

Top-down oversight and governance is provided by:

- Headquarters Chief Financial Officer (CFO), who acts as the "champion" for the A-123 initiative;
- Senior Assessment Team (SAT), who provides the A-123 governance structure and related policy;
- Headquarters A-123 Project Management Team, who provides for day-to-day oversight of A-123 implementation;
- Headquarters Lead Program Secretarial Offices (LPSOs), who provides oversight for Field Office A-123 assessments (LPSOs also conduct their own assessments, as necessary); and,
- Field Office Managers/CFOs, who lead Field Office and Site-level A-123 efforts.



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Bottoms-up assessments are provided by:

- Contractor assessments support Field Offices;
- Field Office assessments/assurances support LPSO assurances; and,
- LPSO and Corporate Department assessments/assurances support the Secretary's assurance on internal controls over financial reporting (with the CFO, SAT, and the Department's Internal Control and Audit Review Counsel recommending the level of assurance).

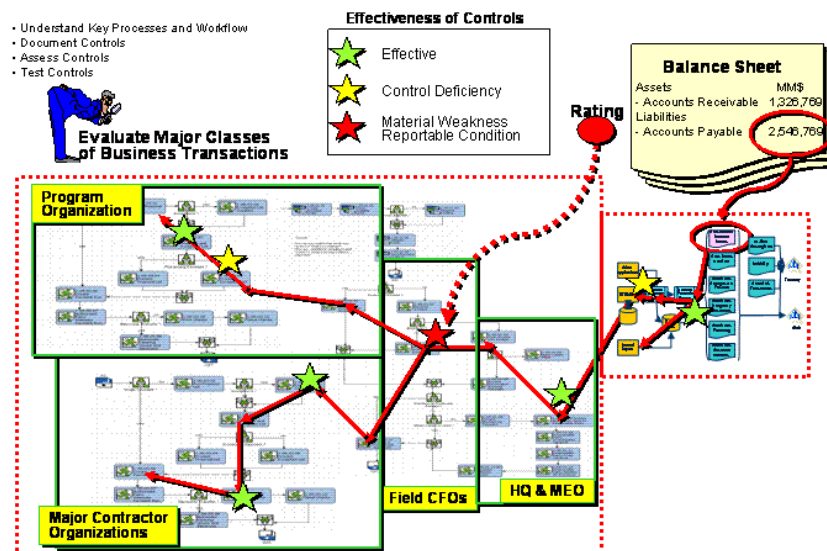
The overall goal of the top-down / bottoms-up approach is to ensure that the Department meets the following three objectives:

- Improve the effectiveness and efficiency of operations;
- Integrate A-123 requirements with other assessment requirements; and,
- Comply with A-123 requirements.

The Department's achievement of these three objectives will enable it to attain the "strategic financial management vision of unified, sound, accountable fiscal operations".²

This integrated approach to implementing A-123 also provides the Department with a solid foundation upon which the Secretary will base his/her annual assurance statement on internal controls over financial reporting. The assurance statement will be included in the Department's Performance and Accountability Report.

OMB A123 Process



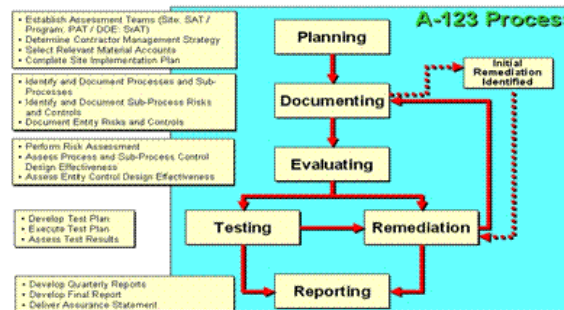
² DOE OMB Circular A -123 Appendix A Implementation Plan



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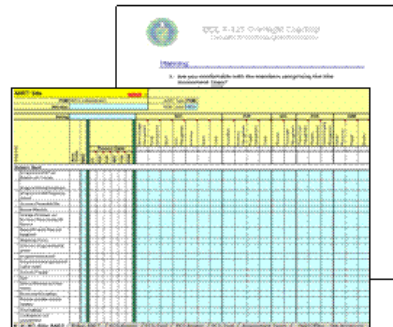
DOE Implementation Resources



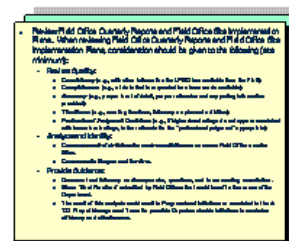
Quick Start Guides



Tools and Checklists



References & Additional Guidance



To facilitate Department-wide A-123 implementation by cognizant LPSOs, Corporate Departments, Field Offices, and Sites, the A-123 Project Management Team has developed Quick Start Guides based on the six steps in the A-123 Process: Planning, Documenting, Evaluating, Testing, Remediation, and Reporting. These guides provide direction and guidance on how to complete each step of the process. In addition to the guides, various tools and related materials have also been created. These guides, tools, and related materials assist in organizing, tracking, reporting and overseeing all A-123 activities and can be found on the CFO A-123 Website.



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REFERENCES

See CFO A-123 Website for suggested reading material:

OMB A-123 Appendix A

CFO Council Implementation Guide for OMB Circular A-123

Financial Audit Manual (GAO-01-765G)

DOE OMB Circular A-123, Appendix A, Implementation Plan

Addendum to the Department of Energy OMB Circular A-123 Appendix A Implementation Plan

DOE Interim Guidance for OMB Circular A-123

FY 2005 Audit Report

FY 2005 Management Letter